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Message Text

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C O N F I D E N T I A L SECTION 01 OF 02 LONDON 14819

LIMDIS GREENBACK

DEPARTMENT PASS FRB

E.O. 11652: XGDS-1
TAGS: EFIN, UK
SUBJECT: H.M. TREASURY ON EC MONETARY COMMITTEE, EC FINANCE COMMISSION, AND INTERNATIONAL FINANCIAL MATTERS

REF: EC BRUSSELS 9067

1. H.M. TREASURY SOURCE WHO ATTENDED SEPTEMBER 10 MONETARY COMMITTEE MEETING GENERALLY CONFIRMS REFTEL. HE REPORTS THAT ITALIANS MADE IMPASSIONED PLEA FOR POSTPONEMENT OF SEPTEMBER 15 IMF AUCTION. DE LA ROSIERE MADE A SYMPATHETIC, ALBEIT NONCOMMITTAL, INTERVENTION WHICH WOULD HAVE ENABLED OTHERS SEEKING TO SUPPORT THE ITALIAN POSITION TO DO SO IF THEY WISHED, BUT NO SUPPORT DEVELOPED. GERMAN CHAIRMAN (KARL OTTO POEHL) AND UK (SIR DEREK MITCHELL) ARGUED AGAINST POSTPONEMENT. POEHL IN HIS CONCONFIDENTIAL
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CLUSIONS STATED THERE WAS INSUFFICIENT TIME TO CONSIDER POSTPONEMENT; HE STRESSED THE GENERAL ISSUE SHOULD NOT

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BE BROUGHT TO THE ATTENTION OF EC FINANCE MINISTERS;
RATHER, EC MEMBERS INDIVIDUALLY SHOULD INSTRUCT THEIR IMF
ED'S TO BE REFLECTIVE AND FLEXIBLE TAKING TO ACCOUNT RE-
SULTS OF THE FIRST THREE AUCTIONS. ITALIANS, WITH DUTCH
SUPPORT (SAASZ) MADE LAST-MINUTE ATTEMPT TO HAVE A FLOOR
PRICE CONSIDERED, WHICH POEHL DISMISSED AS BEING A MATTER
FOR THE IMF ED'S RATHER THAN THE EC MONETARY COMMITTEE.

2. DURING DINNER FOLLOWING SESSION, MAGNIFICO CONTINUED
TO EXPRESS DISAPPOINTMENT AT FAILURE OF EC TO TAKE SOME
POSITIVE ACTION. FROM ALL REPORTS, ITALIANS REMAIN
UNHAPPY OVER FAILURE TO TAKE SOME ACTION ON IMF GOLD
SALES. THEY CAN BE EXPECTED TO CONTINUE THIS CAMPAIGN.
FRENCH IN BILATERAL CONFERSATIONS WITH UK HAVE APPARENTLY
SUGGESTED THAT WHILE THEY DO NOT NECESSARILY SUPPORT POST-
PONEMENT, THEY WOULD PREFER TO HAVE THE AUCTION TECHNIQUES
CHANGED BACK TO SALES AT A SINGLE PRICE (I.E. DUTCH
AUCTION) AS IN FIRST TWO AUCTIONS RATHER THAN OVER A
RANGE. HMT IS SPECULATING ON MOTIVATION OF FRENCH SUG-
GESTION AND WONDERS IF IT POSSIBLY IS TO ENABLE THE BANK
OF FRANCE TO ENTER BIDS WITHOUT RISK OF EMBARRASMENT OF
PAYING HIGHER THAN THE LOWEST ACCEPTED PRICE. THIS
COULD ALSO ENABLE FRENCH TO BID HIGHER, SHOW SUPPORT AT
HIGHER PRICES, BUT NOT HAVE TO PAY THEM.

3. DISCUSSION OF FORTHCOMING IMF/IBRD MANILA MEETINGS
WAS APPARENTLY DESULTORY, AND LACKING IN SUBSTANCE, SOME
DELEGATES NOTING THAT THIS YEAR THE IMF/IBRD SESSION HAS
NO CENTRAL THEME OR AIM. SOURCE REMARKED THAT HMTREASURY
WAS HAVING DIFFICULTY FINDING SUBSTANCE TO PUT INTO DRAFT
SPEECH BEING PREPARED FOR CHANCELLOR HEALEY TO GIVE AT
THE SESSION.

4. DISCUSSION OF EC SNAKE AND TARGET ZONES SAW POEHL
TAKING ISSUE WITH THOSE WHO CRITICIZED FLOATING. HE
ACKNOWLEDGED HE HAD BEEN INITIALLY OPPOSED TO THE BREAK
UP OFTHE 1973 SYSTEM. HE CONSIDERED THAT HAD ITALY AND
THE UK REMAINED IN THE SNAKE THIS MIGHT HAVE FORCED THEM
TO TAKE THE NECESSARY DOMESTIC MEASURES TO
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STABILIZE THEIR ECONOMY. THIS SAID, HOWEVER, IT WAS NOT
FAIR TO BLAME CURRENCY SPECULATION ON FLOATING, RATHER
FLOATING GAVE ONE MEANS OF DEFEATING SPECULATORS. NEITHER
WAS IT FAIR TO BLAME FLOATING FOR DIVERGENCE IN NATIONAL
ECONOMIES. FLOATING RATHER GAVE THE POSSIBILITY OF
ADJUSTMENT WHEN DIVERGING CASES AROSE. EC COMMISSION,
BELGIANS AND DUTCH APPEARED UNCOMFORTABLE UNDER POEHL'S
ONSLAUGHT IN DEFENSE OF FLOATING.

5. DISCUSSION OF DUTCH PROPOSALS ON TARGET ZONES DID NOT

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DRAW ANY CONCLUSIONS. CONSIDERABLY MORE WORK NEEDS TO BE
DONE. UK IS ATTRACTED TO ORT'S TARGET ZONE PROPOSALS.

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THEY SHOULD FACILITATE ACTION BY THE UK IF IT EVER DE-
SIRES TO RETURN TO SOME FORM OF LESS FLEXIBILITY
ENABLING THE AUTHORITIES TO GIVE AN INDICA-
TION TO THE MARKET OF WHAT THEY THINK THE RIGHT RANGE
MIGHT BE. THERE WAS ALSO SOME DISCUSSION ABOUT WHETHER
THE TARGET ZONE RATES SHOULD BE EXPRESSED IN CROSS
RATES OR IN SOME FORM OF AN EFFECTIVE OR TRADE-WEIGHTED
LEVEL. NO RAPID PROGRESS IS EXPECTED IN THESE
DISCUSSIONS. TOPIC COULD ALSO HAVE RELEVANCE IN TERMS OF
IMF SURVEILLANCE OF MARKETS.

6. MONETARY COORDINATION ALSO NOT DISCUSSED AT THE SES-
SION, BUT SOURCE SAID POEHL'S HANDLING OF THE MEETINGS
AND PREVIOUS DISCUSSION OF THE SUBJECT HAS HELPED THE UK
IN MOVING TOWARDS AN AGGREGATE MONETARY TARGET. ("WE ARE

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TWO/THIRDS OF THE WAY THERE.") POEHL HAS SHIFTED THE
MONETARY COMMITTEE FROM DISCUSSING FORMAL
DOCUMENTS LEADING TO CONCLUSIONS AND INSTEAD HAS BUILT
DISCUSSION AROUND WORKING DOCUMENTS, COUNTRY DISCUSSIONS
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AND EDUCATIONARY PROCESSES WHICH THE UK CONSIDERS HAS BEEN
BENEFICIAL AND A CONSIDERABLE IMPROVEMENT OVER PRE-
VIOUS MONETARY COMMITTEE PROCEDURE.

7. EC FINANCE COUNCIL SESSION ON SEPTEMBER 20 HAS BRIEF
AGENDA OF LITTLE SUBSTANCE. MEETING WILL ONLY LAST 2
HOURS TO BE FOLLOWED BY A LUNCHEON. UNLESS THERE IS A
LAST-MINUTE CHANGE, CHANCELLOR HEALEY WILL NOT ATTEND.
DEREK MITCHELL PROBABLY WILL AND HAROLD LEVER MAY POSSIBLY
BE DETAILED TO REPRESENT THE CHANCELLOR. ACCORDING TO
SOURCE, LEVER'S PRESENCE DOES NOT INDICATE THAT MATTERS
OF PARTICULARLY HIGH LEVEL INTEREST ARE BEING DISCUSSED;
RATHER, HEALEY HAS FAILED TO ATTEND ANY EC FINANCE
MINISTERS' SESSION CHAIRED BY DUTCH FINANCE MINISTER
DUSENBERG. RATHER THAN APPEAR IMPOLITE, HEALEY WISHES
TO SEND A HIGH LEVEL REPLACEMENT.

8. TURNING TO UK'S OWN PROBLEMS, SOURCE SAID NO DECISION
HAS YET BEEN MADE TO GO TO THE IMF, BUT GIVEN RESERVE
LOSSES IN JUNE, AND IN LATE AUGUST, EARLY SEPTEMBER,
SENIOR HMT OFFICIALS BELIEVE AN APPROACH TO THE IMF BY
EARLY NOVEMBER SHOULD BE ENVISAGED. THERE WAS CONSIDER-
ABLE NERVOUSNESS WHEN IT WAS DECIDED ON SEPTEMBER 9 TO
ALLOW THE POUND TO FLOAT FREELY. THUS FAR, HMT RELATIVE-
LY PLEASED WITH RESULTS, HAVING INITIALLY FEARED A MUCH
SHARPER DROP. CALL FOR ONE PERCENT SPECIAL DEPOSITS WAS
ALMOST AN AFTERTHOUGHT FOLLOWING AN INCREASE IN MLR
TO 13 PERCENT. AIM OF THESE MOVES IS TO ENABLE HMT TO
AGAIN UNDERTAKE NONINFLATIONARY SALES OF GILTS TO THE
NONBANK SECTOR FOLLOWING A PERIOD WHEN PRIVATE INVESTOR
INTEREST HAD LARGELY FALLEN OFF. GROWTH OF MONEY SUPPLY
IS BEING CLOSELY WATCHED.

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